

Chapter 2

SUMMARY OF MAJOR RECOMMENDATIONS^{A/}**A. Financing the Social Security and Medicare Programs**

- (1) The tax rate schedule for Old-Age, Survivors, and Disability Insurance (OASDI) should be changed so that the program is adequately financed over the next 75 years and maintains, on the average, a contingency reserve of at least one year's outgo (see Table 4-5 in Chapter 4 for details on the tax schedule).
- (2) One-half of the cost of the Hospital Insurance program should be financed from general revenues, beginning in 1983.
- (3) The other half of the Hospital Insurance program should be financed from payroll taxes. The payroll tax rate schedule for Hospital Insurance (HI) should be revised so that the program is adequately financed over the next 75 years and maintains, on the average, a contingency reserve of at least one year's outgo (see Table 4-5 in Chapter 4 for details on the tax schedule).
- (4) In general, the reduction in the HI payroll tax rates (as described in Recommendations (2) and (3)) should be utilized for the purposes of financing the OASDI program (as described in Recommendation, (1)) .

^{A/} Dissenting and supplementary statements of individual Commission members will be found in footnotes in other parts of the report and in Chapter 18.

- (5) In recognition of the general-revenues cost for reducing the employee tax rate for Hospital Insurance, a 2-1/2 percent surcharge should be added to the Federal personal income tax.
- (6) The combined employer-employee tax rate for OASDI and HI combined should not exceed 18 percent-09 percent for employers and 9 percent for employees. When this would otherwise occur, the excess over 18 percent is financed from general revenue payments to OASDI (see Table 4-5 in Chapter 4 for details on the tax schedule).
- (7) The tax rate for the self-employed should continue to be 1-1/2 times the employee rate for OASDI and the same as the employee rate for HI (see Table 4-6 in Chapter 4 for details on the tax schedule).
- (8) The maximum taxable earnings base for both OASDI and HI for both 1985 and 1986 should be maintained at its 1984 level (estimated to be \$39,000) and then automatically adjusted thereafter.
- (9) Borrowing should be authorized among the OASI, DI, and HI Trust Funds, on a permanent basis, repayable with interest.
- (10) As an emergency measure only, borrowing should be authorized by any of the trust funds from the General Treasury until the end of 1985, the loans to be repayable with interest.

- (11) The operations of the OASI , DI , HI, and Supplementary Medical Insurance Trust Funds should be removed from the unified budget of the United States government.
- (12) The chief actuarial officers should provide a certification in the annual Trustees Reports as to the assumptions and methodology used in preparing their actuarial cost estimates and valuations.
- (13) No changes should be made in the financing of the Supplementary Medical Insurance program, because it is now adequately funded.
- (14) Payments to the Railroad Retirement Account under the financial interchange provisions between the Social Security and Railroad Retirement programs should not be made in those cases where the Railroad Retirement program does not pay benefits to the individuals for whom such payments are made (e.g., divorced widows).

B. Retirement Age under Social Security

- (1) Beginning in the year 2001, the minimum age at which unreduced retirement benefits are available should be increased gradually from 65 to 68, reaching 68 in 2012. The corresponding minimum ages for other types of benefits (including those for spouses, widows, and widowers) should similarly be increased, and this should also be done in tandem for persons claiming reduced benefits at earlier ages.

- (2) Larger increases in benefits should be available for persons who delay retirement beyond the normal retirement age. (Those reaching 65 before 1982 would not qualify because under present law they are more favorably treated in the computation of benefits with regard to earnings after 65.)

C. Earnings Test under Social Security

- (1) The earnings test, which measures whether a worker has retired, should be retained.
- (2) The age at which the earnings test no longer applies, which is scheduled to be lowered from 72 to 70 in 1982, should be left at age 72 (until 2001, when it should move up in tandem with the minimum age for unreduced retirement benefits).
- (3) To partially offset the effect of the earnings test in withholding tax-free Social Security benefits, a refundable credit under the Federal income tax should be provided, increasing with the age of the individual. (This would not be available to those reaching age 65 before 1982 for the reason stated in Recommendation B (2)).

D. Benefit Amounts under Social Security

- (1) The Maximum Family Benefit for disability cases should be increased, so that it is the smaller of (a) 80 percent of the highest 5 consecutive years of earnings (indexed) or (b) the maximum applicable to retirement and survivor benefits.

- (2) The special minimum benefit, applicable to persons with long periods of coverage and low earnings, should be changed by increasing the maximum number of years creditable therefor from 30 to 35 and by permitting up to 10 years of child care (for care of children under age 6) to be counted as creditable -years for these purposes.
- (3) Widow's and widower's benefits for persons who are widowed before age 60 (and before the deceased spouse reached age 60) should be computed by indexing the earnings record of the deceased worker by wages during the period between death of the worker and the time benefits are payable. (At present, such indexing is done by prices.)
- (4) The automatic benefit increases resulting from changes in the Consumer Price Index should be limited when, over a 2-year period, the CPI has risen more rapidly than wages. (The increase should then be reduced by the excess of the 2-year average annual rise in the CPI over that in wages.) This procedure should only be used when the benefit increase which would be based on the CPI rise is 5 percent or more. There should be a retroactive "catch up" in future years, if wages rise more rapidly than the CPI, to make up for such reductions.
- (5) The automatic benefit increases resulting from changes in the CPI should be based on the CPI for all urban consumers, rather than on that for urban clerical and manual workers only.

- (6) A special index to measure price changes for the elderly should be constructed and considered for use in indexing Social Security benefits. Separate indexes should not be used for every beneficiary group.
- (7) The windfall portion of benefits arising from periods of noncovered government employment in the future (due to the weighted benefit formula) should be eliminated.

E. Disability Benefits under Social Security

- (1) For the purpose of determining continued eligibility for disability benefits, the dollar amount of Substantial Gainful Activity should be raised to the exempt amount under the retirement earnings test for persons under age 65.
- (2) The dollar amount used in determining whether a month is included in the trial work period should be indexed for future years by changes in average wages.
- (3) The Maximum Family Benefit applicable to disability cases should be liberalized (see Recommendation D (1)).

F. Social Security Hearings and Appeals

- (1) In disability cases, applicants should be informed of their right to have their treating physician comment on the findings of consultative examinations ordered during the adjudicative process.
- (2) Administrative Law Judges should hold pre-hearing conferences when requested by disability applicants who are represented by counsel.

- (3) A new Social Security Court should be established to take over the functions of the Federal District Courts in appeals of Social Security cases.
- (4) Hearings under the Supplementary Medical Insurance program should be conducted by a Federal employee, instead of a representative of the insurance carrier.

G. Miscellaneous Social Security Benefit Provisions

- (1) Child's benefits payable to children aged 18-21 because of school attendance should be suspended for months when the beneficiary is not attending school full-time, and greater efforts should be made to collect overpayments of child school-attendance benefits.
- (2) When either spouse elects to receive a separate benefit check, the total benefit payable to the two spouses should be divided equally between them.
- (3) Marriage and remarriage should be eliminated as terminating events for Social Security benefit entitlement.'

H. Extension of Social Security and Hospital Insurance Coverage

- (1) Hospital Insurance coverage should be extended in 1982, on a mandatory basis, to all governmental employees (Federal, State, and local).
- (2) Social Security coverage should be extended in 1982 (on a mandatory basis) to all governmental employees not now under a retirement system.

- (3) Social Security and Hospital Insurance coverage should be extended in 1982 (on a mandatory basis) to the President, the Vice President, members of the Cabinet, the Commissioner of Social Security, and Members of Congress. Civil Service Retirement benefits and contributions for these officials should be reduced by the Social Security benefits accruing and the Social Security taxes, respectively.
- (4) Social Security and Hospital Insurance coverage should be extended in 1982 (on a mandatory basis) to all employees of nonprofit organizations (except that any such organization operated by a religious sect which is opposed to public insurance could opt out).
- (5) Social Security coverage should be extended in 1985 to all new governmental employees in positions which are covered by a retirement system now in existence.
- (6) The option for State and local governments and 'nonprofit organizations to withdraw from coverage that had previously been elected should be eliminated, after a 1 -year grace period.
- (7) The portion of benefits accruing for governmental employees who have future periods of noncovered governmental employment which are windfalls should be eliminated (see Recommendation D (7)).

- (8) A Federal Employee Benefit Protection Board should be created to review and make recommendations to the President and Congress on the implementation of coverage for Federal employees and how the existing government-employee plans should be modified and coordinated with Social Security and Medicare. The Board should include representatives of Federal employee organizations.
- (9) The minimum-earnings requirements for coverage should be increased as follows: domestic workers, from \$50 per quarter to \$150; casual labor, from \$100 per year to \$150 per quarter; and self-employed persons, from \$400 per year to \$600. (The test of \$150 per year for farm workers should be retained, but the alternate test of 20 days per year of work for one employer should be eliminated.)
- (10) All payments made directly by an employer to an employee on account of sickness should be considered wages, but only for periods up to 6 months after the last month worked .

I. Medicare Benefit Provisions

- (1) The minimum age for eligibility for Medicare benefits, except in disability cases, should be moved up gradually from 65 to 68, beginning in 2001, in the same manner as Social Security retirement benefits.
- (2) The waiting period for Medicare benefits coverage for disabled beneficiaries should be reduced from 24 months on the Social Security roll to 12 months.

- (3) A catastrophic cap should be placed on a person's annual cost-sharing payments for Hospital Insurance and Supplementary Medical Insurance. It should be \$2,000 for 1982, to be indexed in subsequent years by the change in the CPI.
- (4) Hospital benefits should be determined on a calendar-year basis, rather than a spell-of-illness basis. No more than one initial deductible should be payable in any one year.
- (5) The daily coinsurance for hospital benefits should be changed from 25 percent of the initial deductible for days 61-90 (and 50 percent for the lifetime reserve of 60 days) to 10 percent for days 51-100 and 5 percent for days 101-150, with no lifetime reserve days. The initial deductible would remain the only cost sharing for the first 50 days.
- (6) Home health visits should be reimbursed under Supplementary Medical Insurance, except for persons who have only Hospital Insurance, who would be reimbursed under that program.
- (7) The maximum benefit for outpatient psychiatric services under Supplementary Medical Insurance should be increased from \$250 to \$375 per year. The services of community health centers should be reimbursed.
- (8) Benefits should be paid for hospital care outside of the United States which is not now covered. The maximum amount of the benefit would be at the rate of 50 percent of the initial deductible per day of hospitalization, less the usual cost-sharing payments.

- (9) The costs of laboratory services for hospital inpatients should be billed under the Hospital Insurance program, rather than under Supplementary Medical Insurance, even when the services are provided through an outside laboratory.

J. Medicare Reimbursement and Health Care Costs

- (1) Experiments with negotiated fee schedules for physicians and prospective reimbursement for hospitals should be continued and extended.
- (2) Medicare and Medicaid should not be used as instruments to limit the rise in health care costs. However; the programs should encourage further experimentation with groups like Health Maintenance Organizations. Federal and State governments should encourage competition in the delivery of health care services in order to restrain cost increases.
- (3) Hospitals participating in Medicare should retain the right to nominate intermediaries.

K. Supplemental Security Income

- (1) Payments under the Supplemental Security Income program should be increased by 25 percent, and recipients should no longer be eligible for food stamps. States should be required to maintain their current level of supplementation.
- (2) The assets test for eligibility should be eliminated.
- (3) The reduction of one-third in the basic payment when the recipient lives with others should be eliminated.

- (4) The general income disregard should be increased from \$20 to \$40 and, in the future, should be indexed by the CPI.
- (5) The earned income disregard should be indexed to changes in the level of wages, beginning in 1981.
- (6) SSI payments should be indexed in the same manner as Social Security benefits, including a maximum limit in periods when wages rise less rapidly than prices.

L. Medicaid

- (1) All individuals whose income is 65 percent or less of the poverty standard should be eligible for Medicaid. This should be a requirement for Federal approval of a State's Medicaid plan.
- (2) The "medically needy" should be eligible for Medicaid (with a spend-down provision), with a maintenance-of-effort provision being applicable to the States.
- (3) Medicaid eligibility for disabled recipients of Supplemental Security Income should not terminate before the person becomes entitled to Medicare, in cases where ineligibility is based solely on receipt of Disability Insurance benefits.
- (4) The States' option to base Medicaid eligibility for SSI recipients on 1972 Medicaid standards, resulting in some SSI recipients not being eligible for Medicaid, should be eliminated.
- (5) Reimbursement to physicians for Medicaid should be raised to the levels paid by Medicare.

- (6) Coverage of abortions under Medicaid should be the same as that for any other covered medical procedure.

M. Program Administration

- (1) An independent government agency should be established to administer the Social Security, Medicare, Supplemental Security Income, and Medicaid programs.
- (2) Additional resources should be made available to improve the administration and delivery of services to beneficiaries. Arbitrary limits on personnel and resources for the administration of these programs should be eliminated.
- (3) Social Security District Offices should have at least one specialist in disability cases and also staff trained to provide information about Medicare, and efforts should be made to tell beneficiaries that such information is available.
- (4) The W-2 income tax forms should provide more specific information as to the meaning of terms and the allocation of the Social Security and Hospital Insurance payroll taxes.

N. Private Pensions

- (1) Employers should not be required by law to establish pension programs for their employees.
- (2) The present \$1,500 annual limit on contributions which can be made under the individual Retirement Account (IRA) program should be increased. .

0. Other Recommendations

- (1) The States should be encouraged to establish standards of eligibility under needs-tested programs for persons who divest themselves of assets, within the limits prescribed under present law.**
- (2) A separate program should be established to provide long-term care for the aged and the chronically disabled. It should include nursing home services, home health and homemaker services, adult day-care, and nutritional services.**